

GUNNAR MINING


L I M I T E D

36TH

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1969



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GUNNAR MINING

L I M I T E D

Suite 1707, 80 Richmond St. West
Toronto 1, Ontario

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BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

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ANNUAL MEETING

June 29, 1970, 11.00 A.M. (Toronto Time)
Room A Convention Floor, Royal York Hotel,
Toronto, Ontario

BOARD OF DIRECTORS

JOHN N. BOTSFORD, Toronto, Ont.

JOSEPH S. LABINE, Toronto, Ont.

A. DOUGLAS MCKEE, Toronto, Ont.

HAROLD MCNAMARA, Toronto, Ont.

WILLIAM MCNAMARA, Montreal, Que.

THOMAS P. O'CONNOR, Toronto, Ont.

ERNEST J. SPENCE, Toronto, Ont.

EXECUTIVE OFFICERS

T. P. O'CONNOR, *President*

J. N. BOTSFORD, *Vice-President and General Manager*

J. S. MCFADDEN, *Secretary*

A. H. CROSS, *Treasurer and Assistant Secretary*

DIRECTORS' REPORT

June 5, 1970.

To the Shareholders,
GUNNAR MINING LIMITED.

Herewith are the audited Consolidated Financial Statements of the Company for the year ended 31st December, 1969, and unaudited Interim Consolidated Financial Statements for the three months ended 31st March, 1970.

The highlights of the year-end statements may be summarized as follows:

	1969	1968
Gross revenues	\$55,809,000	\$52,418,000
Net income	\$ 425,000	\$ 255,000
Shares outstanding	4,404,399	4,398,399
Earnings per share	\$.10	\$.06
Working capital	\$ 1,590,000	\$ 1,068,000
Bank indebtedness	\$22,862,000	\$24,697,000
Shareholders' equity	\$ 2.48	\$ 2.39

The 1970 Interim Statements should be considered in the light of the comments contained therein, particularly in view of the peculiarly cyclical nature of the heavy construction business engaged in by the construction subsidiaries.

CONSTRUCTION

During 1969 the Heavy Construction and Newfoundland divisions again experienced satisfactory margins with volume of work completed amounting to \$24,800,000 compared with 1968's \$23,000,000. Unfinished work on hand at the year end was \$33,475,000 compared with \$34,000,000 at the end of 1968 and \$26,000,000 at the end of 1967.

The large Hydro-Electric power project at Kettle Rapids on the Nelson River in Manitoba, in which the Company's interest is 28%, is now 90% complete and profits have continued to be as forecast. At the year end the owner exercised options to increase this contract by \$8,746,000.

All other construction projects are progressing satisfactorily with the exception of the underground power house at Churchill Falls in Labrador, a joint venture in which the Company's interest is 14%. Changes in site conditions have increased costs substantially with the result that the profit margin deteriorated sharply. A claim for recovery of the extra costs is being negotiated.

Among the new jobs obtained in 1969 was a railway-highway tunnel under the new Welland Canal in the Niagara Peninsula. This project, with a gross revenue of approximately \$32,000,000, is a joint venture with C. A. Pitts Construction Eastern Limited. The Company's share is 35% and the job is well ahead of schedule.

The work booked to date in 1970 by the Heavy Construction and Newfoundland divisions is at a satisfactory level.

Marine

Due to continued reduction in 1969 in both Federal and Provincial public works programs, Marine operations remained at unsatisfactory levels. However, maintenance work and im-



proved facilities for the St. Lawrence River and the Great Lakes shipping cannot be postponed indefinitely. Some resurgence in activity can be expected in the near future.

The Marine division was recently awarded a \$5,000,000 dredging contract by The Hydro-Electric Power Commission of Ontario in connection with the Steam Generating Station being constructed at Nanticoke, Ontario. This is a joint venture with Canadian Dredge and Dock Co. Ltd.

Supply Division

Notwithstanding continuing adverse effects of high interest rates on the industries served by the Supply division, 1969 volume of business recovered to approximately the same levels as that obtained in 1967. This enabled the division to counteract the price/cost squeeze and profits were maintained at approximately 1968 levels.

Current deflationary conditions, high interest rates and credit restrictions are having an adverse effect on both sales and profits in this division and overall results for 1970 may be substantially below previous experience unless economic conditions improve.

Filtration and Chemical Developments

Research and development work on our new chemical processes and on filter development was continued. Additional technical staff has now been employed for the filter project

in order that we may expedite commercial operations.

Evaluation reports have been prepared by Kaiser Engineers of Oakland, California, on the filter project and by Bechtel Corporation of San Francisco on the chemical processes. These reports are presently being considered and will be of major assistance in determining our future course of action.

MINING

During the calendar year 214,155 tons of ore grading 3.3% copper were milled from the Icon-Sullivan Joint Venture Mine in the Chibougamau area of Quebec. This resulted in the production of 26,226 tons of concentrate and the sale of 13,123,900 pounds of returnable copper. Income from the 21.4% interest held by Gunnex Limited, our exploration subsidiary in this Joint Venture amounted to \$955,000 after amortization. Production from higher grade ore, together with a higher copper price, accounted for this improved return from the Joint Venture in 1969.

A heavy media separation plant for the preconcentration of ore at the mine site was purchased in August and preparations for installation commenced in September, 1969. The erection of the preconcentrator building and the conveyerways and the installation of equipment have been completed and are now in operation. We anticipate this plant, which has a capacity of up to 200 tons per hour, will be operated at

DIRECTORS' REPORT (CONTINUED)

an approximate rate of 80 to 100 tons per hour on a two-shift basis and will eliminate 30% - 50% of waste dolomite and graphitic argillite. This will result in a reduction in the consumption of reagents in the flotation concentrator. All low grade development muck, which has been stockpiled, will be treated in this media plant for the recovery of any copper which may be present.

Development

Due to a lack of sufficient funds, brought about by a continuing depressed price for silver, no work was carried out at the Noradco property in British Columbia by the Noradco-Shield Joint Venture during 1969. Thus, certain items of equipment, which would deteriorate if left in storage and which can be readily replaced, were sold at good recovery values. Proceeds of the equipment sales enabled the Joint Venture to put itself in a debt-free situation and permitted Noradco Mines Limited to reduce its indebtedness to the Company.

The results of the 1968 exploration and development program indicate a strong possibility of the vein system extending to depth and thus increasing the tonnage reserve. Any definite improvement in the price of silver, together with increased ore reserves will put this operation into a profitable and satisfactory position.

Exploration

Stream sediment sampling and prospecting was carried out in southcentral British

Columbia during the past year, and sufficient interest was created to justify continuation of this work in 1970.

Magnetic and electromagnetic surveys completed early in 1969 indicated conductors which are roughly coincident with two sulphide occurrences in central Manitoba. It is anticipated further testing and possibly diamond drilling will be completed in 1970.

We have continued aerial radiometric surveys over large areas of Ontario on a joint venture basis with CanPac Minerals Limited, the mineral division of Canadian Pacific Oil & Gas Limited. Radioactive anomalies were followed up by ground parties and we are continuing this survey work in 1970.

Our joint venture exploration with CanPac Minerals and Tombill Mines Limited on an option in the Kipawa area of western Quebec was explored in detail by geochemical survey, prospecting and diamond drilling. Results do not justify further work at this time.

Gunnex continues to hold a large block of claims with Gulch Mines Limited and Tombill Mines Limited in the Eastmain River area of northwestern Quebec. Prospecting work completed last year resulted in additional claims being staked and further work is under consideration for 1970.

Gunnex suffered a major loss this year in the accidental death of three employees in two



separate accidents. Dr. John W. F. Walker, who was our geologist in southwestern United States, was involved in an accident in July, and two of our experienced prospectors, Gordon Linklater and Allen Larson, were lost in a plane crash north of Sudbury in September. These most unfortunate accidents restricted our program and forced a change of plans and procedures for the balance of the year and into this coming season.

We are continuing all of our joint venture arrangements with CanPac Minerals, Tombill Mines Limited and Gulch Mines Limited for the coming season.

OUTLOOK

In spite of the adverse economic conditions that have prevailed during the latter part of

1969 and to date in 1970, your directors anticipate a reasonable year-end operating profit for the Company.

The Consortium Agreement with the Company's bankers and the bonding company has been extended again and now applies until the end of 1971.

Revised estimates of ore reserves for the Icon Mine at Chibougamau are expected to prolong its life until 1973.

On behalf of the Board,

T. P. O'CONNOR,
President.

GUNNAR MINING LIMITED AND SUBSIDIARIES

ASSETS

CURRENT	1969	1968
Accounts and notes receivable, including \$448,000 retained by customers in accordance with contract provisions (1968; \$814,000)	\$ 7,529,000	\$ 7,700,000
Income taxes recoverable — net	381,000	904,000
Special refundable tax	243,000	159,000
Inventories for resale at the lower of cost and net realizable value	9,923,000	8,734,000
Construction equipment for resale	2,507,000	2,615,000
Investment in joint ventures	9,768,000	10,535,000
Contracts in progress, at the lower of cost and net realizable value, less progress billings	353,000	239,000
Prepaid expenses	666,000	437,000
	<u>31,370,000</u>	<u>31,323,000</u>
SUNDRY INVESTMENTS, at cost less amortization	1,046,000	1,139,000
PROPERTY, PLANT AND EQUIPMENT, at cost	\$18,911,000	
Less accumulated depreciation	<u>10,464,000</u>	
	8,447,000	8,284,000
On behalf of the Board		
T. P. O'CONNOR, Director.		
J. N. BOTSFORD, Director.		
	<u>\$40,863,000</u>	<u>\$40,746,000</u>

The attached notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1969

(with comparative figures for 1968)

LIABILITIES

	1969	1968
CURRENT		
Bank indebtedness, secured	\$22,862,000	\$24,697,000
Accounts, notes payable and accrued charges	6,830,000	5,450,000
Sundry taxes payable	88,000	108,000
	<u>29,780,000</u>	<u>30,255,000</u>
Mortgage payable	155,000	—

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
5,000,000 shares of \$1 each par value		
Issued and fully paid — 4,404,399 shares (1968; 4,398,399 shares)	\$ 4,404,000	
Add premium on shares, net	8,179,000	
	<u>12,583,000</u>	
Deficit, as attached	<u>1,655,000</u>	
	10,928,000	10,491,000
	<u>\$40,863,000</u>	<u>\$40,746,000</u>

et of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

	1969	1968
Gross revenue, including \$22,154,000 as share of joint venture revenue (1968 — \$17,198,000)	<u>\$55,809,000</u>	<u>\$52,418,000</u>
Income from operations (including \$210,000 gain on disposal of fixed assets) before undernoted charges	<u>\$ 3,280,000</u>	<u>\$ 3,373,000</u>
Financial expense — net	1,763,000	1,915,000
Depreciation	857,000	941,000
Underprovision of prior years' taxes and interest	223,000	262,000
Provision for foreign state income taxes	12,000	—
	<u>2,855,000</u>	<u>3,118,000</u>
Net income for the year	<u>\$ 425,000</u>	<u>\$ 255,000</u>

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

	1969	1968
Deficit, January 1	\$ 2,080,000	\$ 2,335,000
Net income for the year	425,000	255,000
Deficit, December 31	<u>\$ 1,655,000</u>	<u>\$ 2,080,000</u>

The attached notes are an integral part of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

SOURCE OF WORKING CAPITAL	1969	1968
From operations		
Net income	\$ 425,000	\$ 255,000
Expenses which did not require outlay of funds		
Depreciation	857,000	940,000
Sundry	138,000	140,000
	<u>1,420,000</u>	<u>1,335,000</u>
Proceeds on issuance of shares	11,000	117,000
Net book value of fixed assets sold	254,000	368,000
Adjustment of investment in joint venture	98,000	—
Proceeds on sale of sundry investment less applicable mortgage — net	—	40,000
	<u>363,000</u>	<u>525,000</u>
	<u>1,783,000</u>	<u>1,860,000</u>
 APPLICATION OF WORKING CAPITAL		
Purchase of fixed assets less applicable mortgage on building of \$160,000	712,000	682,000
Payments on mortgage principal	5,000	308,000
Equity in dredge on completion of contract	544,000	—
Note on sale of subsidiary	—	260,000
	<u>1,261,000</u>	<u>1,250,000</u>
Increase in working capital	522,000	610,000
Working capital, January 1	1,068,000	458,000
Working capital, December 31	<u>\$ 1,590,000</u>	<u>\$ 1,068,000</u>

The attached notes are an integral part of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1969

1. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies; consequently the results of the partially-owned (51%) subsidiary Noradco Mines Limited, are not included. The Company's interest in this subsidiary, which is a non-producing mining company in the exploration stage, is in the accounts at the cost of the investment, \$497,000.
2. The bank indebtedness is secured by charges on assets of the Company and all its wholly-owned operating subsidiaries.
3. It is the policy of the Company not to reflect claims for extra work in the financial statements until the compensation has been awarded.
4. Construction equipment for resale is valued at cost less accumulated depreciation to December 31 of the year preceding its transfer to this inventory account. This valuation is less than estimated net realizable values.
- 5.(a) The investment in joint ventures will be liquidated in the normal course of contract completion. Although completion may require more than one year, such investments are included in current assets.
(b) The Company had advanced on behalf of their co-venturer during the term of a joint contract approximately \$2,900,000 in excess of its own pro rata share of the joint venture's cash requirements. The collection of this amount was the subject of an official arbitration hearing which was concluded in 1969. On September 16, 1969 the arbitrator made his award, which was confirmed by judgment of the United States District Court for the Northern District of California, in favour of the Company. This judgment will not become final as to one of the two defendants until after the pending trial of certain special defenses. In the opinion of management a final decision by the Court favourable to the Company will be forthcoming.
6. The underprovision of prior years' taxes includes interest in the amount of \$115,000 in connection with a judgment of the Exchequer Court dated March 23, 1970, allowing an appeal to that Court by the Minister of National Revenue. Notice of appeal from this judgment to the Supreme Court of Canada has been filed by the Company.
7. The Company has reserved 237,250 shares of unissued capital stock pursuant to an Employees' Incentive Stock Option Plan. Options were outstanding at March 6, 1970 for 217,250 shares granted at various dates in the years 1965 through 1969 at prices ranging from \$3.15 to \$1.37 per share. These prices were equal to the closing bid price on the Toronto Stock Exchange at the grant date. During 1969 options were exercised for 6,000 shares for cash in the amount of \$11,000. The outstanding options are exercisable at various dates up to January 16, 1975.
8. Remuneration of Directors and Senior Officers of Gunnar Mining Limited from that Company and its subsidiaries for the year totalled \$228,000.
9. No provision for income tax has been reflected in the accounts except foreign state income taxes due to (a) the application of prior years' losses (b) mining income during the first three years of operations being non-taxable.

AUDITORS' REPORT

The Shareholders,
GUNNAR MINING LIMITED.

We have examined the consolidated balance sheet of Gunnar Mining Limited and subsidiaries as at December 31, 1969 and the consolidated statements of income, deficit, and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustments which may arise from resolution of the matter set out in Note 5(b), these financial statements present fairly the financial position of Gunnar Mining Limited and subsidiaries as at December 31, 1969 and the results of their operations and the source and application of working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS & CO.,
Chartered Accountants.

Toronto, Ontario,
March 25, 1970.

GUNNAR MINING LIMITED

Suite 1707, 80 Richmond Street West, Toronto 1, Ontario

CONSOLIDATED FINANCIAL STATEMENTS

The earnings for the year 1969 amounted to \$540,000.00 as compared with \$255,000.00 in 1968. These figures are subject to completion of the year-end audit.

The annual Report for 1969 will be mailed to the shareholders in due course.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
Gross revenue including \$22,154,000 as share of Joint Venture revenue (1968—\$17,198,000)	\$55,689,000	\$52,418,000
Income from operations (including \$210,000 gain on disposal of fixed assets) before undernoted charges	3,160,000	3,373,000
Financial expense — net	1,763,000	1,915,000
Depreciation	857,000	941,000
Underprovision of prior years' taxes	—	262,000
	2,620,000	3,118,000
Net income for the year	\$ 540,000	\$ 255,000

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

For the year ended December 31, 1969

Source of Working Capital

From operations		
Net Income	\$ 540,000	\$ 255,000
Expenses which did not require the outlay of funds		
Depreciation	857,000	941,000
Sundry	138,000	139,000
	1,535,000	1,335,000
Proceeds on issuance of shares	11,000	117,000
Net book value of fixed assets sold	254,000	368,000
Adjustment of investment in Joint Venture	98,000	—
Proceeds on sale of sundry investment less — applicable mortgages — net	—	40,000
Proceeds of mortgage on new building	160,000	—
	523,000	525,000
	2,058,000	1,860,000

Application of Working Capital

Note on sale of subsidiary	—	260,000
Purchase of fixed assets	872,000	682,000
Payments on mortgage principal	5,000	308,000
Equity in dredge obtained on completion of contract	544,000	—
	1,421,000	1,250,000
Increase in working capital	637,000	610,000
Working capital, January 1	1,068,000	458,000
Working capital, December 31	\$ 1,705,000	\$ 1,068,000

1,705
1,068
1,137

